



BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.	Application 06-11-010 (Filed November 22, 2006)
Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan	Application 07-03-019 (Filed March 19, 2007)

**SETTLEMENT AGREEMENT BETWEEN
THE DIVISION OF RATEPAYER ADVOCATES AND
CALIFORNIA WATER SERVICE COMPANY**

1. GENERAL

1.1 Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), the Division of Ratepayer Advocates (“DRA”) and California Water Service Company (“Cal Water” collectively, “the Parties”) have agreed on the terms of this Settlement Agreement, which they now submit, for approval. This Settlement Agreement addresses Cal Water’s request for a memorandum account to track conservation program expenditures.

1.2 Because this Settlement Agreement represents a compromise by them, the Parties have entered into each stipulation contained in the Settlement Agreement on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement Agreement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding. (Rule 12.5, Commission’s Rules on Practice and Procedure.)

1.3 The Parties agree that no signatory to the Settlement Agreement assumes any personal liability as a result of their agreement. All rights and remedies of the Parties are limited to those available before the Commission.

1.4 The Parties agree that this Settlement Agreement is an integrated agreement, so that if the Commission rejects any portion of this Settlement Agreement, each Party has the right to withdraw. Furthermore, the Settlement Agreement is being presented as an integrated package such that parties are agreeing to the Settlement as a whole, as opposed to agreeing to specific elements of the Settlement.

1.5 Parties agree to use their best efforts to obtain Commission approval of the Settlement Agreement. The Parties shall request that the Commission approve the Agreement

without change and find the Agreement to be reasonable, consistent with the law, and in the public interest.

1.6 This Settlement Agreement may be executed in counterparts, each of which shall be deemed an original, and the counterparts together shall constitute one and the same instrument.

2. BACKGROUND

2.1 DRA and Cal Water agree that Cal Water should have the flexibility to expand its conservation programs for any Cal Water District that will experience a delay in its next General Rate Case (“GRC”) for more than a year under the revised Rate Case Plan (“RCP”) adopted in D.07-05-062.

2.2 Under the revised RCP adopted in D.07-05-062, the next rate case for the Cal Water 2005 rate case districts (Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes, and Redwood collectively referred to as “2005 GRC districts”) will not be submitted until July 1, 2009 with an effective date of new rates in January 2011. Thus 4.5 years will have elapsed between GRCs for these districts, or a delay of 1.5 years beyond the required three year GRC cycle. This GRC delay of 1.5 years is referred to as the gap period in this Settlement Agreement.

2.3 D.07-05-062 provides an Advice Letter procedure for utility districts whose rate cases have been or will be delayed because of revisions to the RCP.¹

¹ D.07-05-062 provides the following procedure for utility districts that are delayed:

“We conclude that companies experiencing a delay in their GRCs under our new RCP may seek a rate modification, subject to refund as set forth below, via an advice letter. [Footnote: We do not designate this advice letter under any “Tier.”] Our adopted procedure is set forth at II(B) of the RCP. Section II(B)1 also sets forth the procedure for seeking permission to forego a GRC filing. We will not limit the rate changes sought in these filings to the rate of inflation. However, interim rates under Section 455.2(c), when approved, will be subject to refund and shall be

2.4 The Commission adopted the following conservation budgets for the 2005 rate case districts in D.06-08-011. These amounts were allocated equally across the three years of the GRC cycle and were excluded from escalation year increases as set forth below in Table 1:

Table 1

District	Conservation Expense (Three-year Totals)	Annual Conservation Expense
Antelope Valley	\$ 72,000	\$ 24,000
Bear Gulch	462,300	154,100
Dominguez-South Bay	319,300	106,433
Hermosa-Redondo	286,700	95,567
Kern River Valley	84,800	28,267
Marysville	92,500	30,833
Palos Verdes	229,600	76,533
Redwood – Coast Springs rate area	8,100	2,700
Redwood – Lucerne rate area	43,800	14,600
Redwood – Unified rate area	17,700	5,900

adjusted upward or downward back to the effective date of the interim rates upon the adoption of final rates by the Commission at the conclusion of a GRC scheduled under the RCP. This procedure will only apply during our transition to the new RCP when the new RCP plan delays a water utility's GRC beyond the three-year cycle set forth in Section 455.2(c). We decline to adopt CWA's suggestion to permit utilities to file applications. Applications will unduly complicate the RCP schedule and create numerous inefficiencies. Furthermore, the advice letter process addresses all of CWA's concerns. Lastly, during the transition to the new RCP, the assigned ALJ may modify the time schedule for processing GRCs to accommodate the workload concerns or other needs of the parties." (D.07-05-062)

Section II(B) of the Rate Case Plan specifies the following procedure to address delay beyond the three-year GRC cycle:

"A water utility that experiences a delay beyond three-years in filing a GRC application due to the transition to the RCP schedule may seek to implement an interim rate change via an advice letter. Such filing will not excuse a utility from filing its future GRCs according to the RCP schedule. These interim rates, when approved, will be subject to refund and shall be adjusted upward or downward back to the effective date of the interim rates with the adoption of final rates by the Commission at the conclusion of a GRC scheduled under the RCP. The procedures herein will only apply during our transition to the RCP in instances when this RCP schedule delays a GRC for any water utility beyond the three-year cycle set forth in Section 455.2." (D.07-05-062, page A2 – A3)

2.5 D.06-08-011 provided that Cal Water would track its conservation n expenses against this conservation budget in a one-way balancing account by district at the annual levels specified above until the next rate case filing. The Commission anticipated that this filing could be delayed beyond the three year rate case cycle.² It required any under-expenditure in the one-way balancing account to be refunded to customers at the next GRC.

2.6 As of July 1, 2007, Cal Water had spent \$182,340 of its authorized annual conservation budget of \$538,933 for the 2005 GRC districts. D.06-08-011 provides that any difference between the authorized level and actual spending would carry-over in the one-way balancing account and augment the conservation budget for future years. Table 2 below identifies the difference between the authorized levels for conservation expenditures in each Cal Water district and actual dollars Cal Water had spent as of July 1, 2007.

Table 2

² D.06-08-011 anticipated that the next Cal Water GRC for the 2005 Districts could extend beyond the former three year rate case cycle. It said, “Second, if for any reason the first test year of the next GRC cycle for any or all of these districts were to be postponed so that it begins more than three years after July 1, 2006, customers would continue to pay the rate increments corresponding to these conservation allowances. In that case, we should interpret the “conservation budget” to have continued into the period after 2008/2009, and it would be reasonable to require CalWater to enter additional budgeted amounts into the balancing account during that time. CalWater could then use the additional amounts for conservation activities during the fourth year, *etc.*, until the beginning of the first test year in the next GRC cycle.”^[45] Footnote 45 said, “For example: The Antelope Valley district three-year conservation budget is \$72,000. CalWater will credit the balancing account with \$24,000 annually (or a prorated lesser amount for the first year to recognize that rates will not take effect on July 1, 2006). It will reduce the account by the amount of its reasonable conservation expenses. However, if the next GRC cycle for Antelope Valley were delayed six months to calendar year 2010, CalWater would continue to collect the same level of conservation expenses in rates, we would expect the balancing account to accumulate another \$12,000, and CalWater would be allowed to continue to recover additional conservation expenses from the account.” (See D.06-08-011 at page 45.)

2005 GRC Districts*	Current Annual GRC Authorized Conservation	Conservation Expenses Fiscal Year 2006-07**	% of Authorized Expenses Spent in FY 2006-07	FY 2006-07 Remaining Funds
ANTELOPE VALLEY	\$ 24,000	\$ 7,146	30%	\$ 16,854
BEAR GULCH	\$ 154,100	\$ 79,473	52%	\$ 74,627
DOMINGUEZ	\$ 106,433	\$ 23,434	22%	\$ 82,999
HERMOSA REDONDO	\$ 95,567	\$ 26,569	28%	\$ 68,998
KERN RIVER VALLEY	\$ 28,267	\$ 10,008	35%	\$ 18,259
MARYSVILLE	\$ 30,833	\$ 5,803	19%	\$ 25,030
PALOS VERDES	\$ 76,533	\$ 23,190	30%	\$ 53,343
REDWOOD VALLEY	\$ 23,200	\$ 6,717	29%	\$ 16,483
	\$ 538,933	\$ 182,340	34%	\$ 356,593

*D-06-08-011

** Spending as of June 30 2007

3. CONSERVATION BUDGET AND MEMORADUM ACCOUNT

3.1 With the increased emphasis on water conservation by the Commission, the Department of Water Resources and expected drought conditions in California, DRA and Cal Water agree that Cal Water should have the flexibility to expand its conservation programs for the 2005 general rate case districts which include Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes, and Redwood, beyond levels authorized in D.06-08-011 during the gap period of fiscal year ("FY") 2009/2010 and the final six months of 2010.

3.2 DRA and Cal Water agree that in lieu of requesting any change to the conservation budget in the Advice Letter procedure established in D.07-05-062, that Cal Water should be authorized to set up a Conservation Memorandum Account in each of the 2005 GRC districts (Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes, and Redwood) to track conservation expenditures subject to the conditions in paragraph 3.3 herein to bridge the 18 month delay until the effective dates of new rates under the revised rate case plan. The memorandum account for each district shall be in effect from July 1, 2009 until December 31, 2010.

3.3 To bridge the gap between GRCs for the 2005 GRC districts, DRA and Cal Water agree on total conservation budgets for FY 2009/2010 and a half year budget for July –

December 2010 to provide additional funding beyond what has already been authorized in rates for a total of \$1.575 million as shown in Table 3 below. DRA and Cal Water agree that a Conservation Memorandum Account shall be established by district for each of Antelope Valley, Bear Gulch, Dominguez-South Bay, Hermosa-Redondo, Kern River Valley, Marysville, Palos Verdes, and Redwood districts to track any additional expenditures beyond what is already authorized in rates and remaining funds from prior years carried over in the one-way balancing accounts. The total conservation budgets for each district are shown in Table 3 below.

(a) Each district's Conservation Memorandum Account will be used once conservation funding already authorized in rates and balances from under-spending in prior years in each district have been exhausted.

(b) Each district's Conservation Memorandum Account will be capped at an amount equal to the difference between that district's total conservation budget as set forth herein for the gap period and the amount already authorized in rates for that period and the balance in the one-way balancing account as of July 1, 2009. For example, if there were a \$100,000 balance in the one-way balancing account in the Bear Gulch District on July 1, 2009, the cap for the memorandum account would be \$119,198. This is equal to the total budget for the gap period for Bear Gulch of \$450,348 minus both the \$231,150 already included in rates and the \$100,000 balance in the one-way balancing account.

(c) Table 3 below provides the total conservation budget for the gap period for FY 2009/2010 and the remaining six months of 2010.

(d) It is standard regulatory practice that recovery of memorandum account expenditures is not guaranteed, and expenditures are subject to a reasonableness review. Thus Cal Water has the responsibility to show that conservation program expenditures were prudent, cost effective and provided ratepayer benefits

(e) It is the understanding of DRA and CWS that additional reporting requirements and the methodologies for determining water savings will be considered in Phase II of this investigation, I.07-01-022.

Table 3: CWS Bridge Conservation Budget Limits for 18 month Gap Period									
District	Conservation Amount Already Authorized in existing rates		Total Gap Conservation Budget per Settlement		Additional Conservation Funding for 18 month gap period beyond what is already included in rates.		Balance in One-Way Balancing Account as of 7/1/2009		Memo Account Cap
	FY 2009/2010	July - Dec 2010	Total Conservation Budget in rates for 18 month gap period	FY 2009/2010	July - Dec 2010	Half year budget	Total Gap Budget		
Antelope Valley	24,000	12,000	36,000	40,079	30,059	70,138	34,138	TBD	TBD
Bear Gulch	154,100	77,050	231,150	257,342	193,006	450,348	219,198	TBD	TBD
Dominguez-South Bay	106,433	53,217	159,650	177,740	133,305	311,045	151,395	TBD	TBD
Hermosa-Redondo	95,567	47,783	143,350	159,598	119,695	279,293	135,943	TBD	TBD
Kern River Valley	28,267	14,133	42,400	47,204	35,403	82,607	40,207	TBD	TBD
Marysville	30,833	15,417	46,250	51,491	38,618	90,109	43,859	TBD	TBD
Palos Verdes	76,533	38,267	114,800	127,808	95,856	223,664	108,864	TBD	TBD
Redwood - Coast Springs	2,700	1,350	4,050	4,509	3,382	7,891	3,841	TBD	TBD
Redwood - Lucerne Rate area	14,600	7,300	21,900	24,381	18,286	42,667	20,767	TBD	TBD
Redwood - united rate area	5,900	2,950	8,850	9,853	7,390	17,243	8,393	TBD	TBD
All districts*	\$538,933	\$269,467	\$808,400	\$900,000	\$675,000	\$1,575,000	\$766,600	TBD	TBD

(A) D.06-08-011.
 (B) This is a budget for six months only at rates set by D.06-08-011. New rates will be effective Jan. 1, 2011.
 (C) **The total conservation budget in existing rates. (A) + (B) = (C)**
 (D) Settlement agreement total conservation budget for FY 2009/2010.
 (E) Settlement agreement total conservation budget for July - Dec 2010. New rates are effective Jan 1, 2011.
 (F) Total conservation budget per settlement for the gap period.
 (G) **The additional conservation funding for the 18 month gap period of 7/1/2009 to 12/21/2010 in each district is the difference between the total conservation budget for the gap period and what is already authorized in rates. (G) = (F) - (C)**
 (H) The balance in the one-way balancing account required in D.06-08-011 as of 7/1/2009. Any balance represents funds remaining from previous year conservation funding authorizations.
 (I) **The Conservation Memorandum Account cap (I) is the difference between the total conservation budget (F) less conservation amounts already authorized in existing rates (C) less any balance in the one-way balancing account (H) remaining from prior years. (I) = (F) - (C) - (H)**

* Totals for all districts provided for information purposes only. Conservation budgets and memo accounts are by district.

3.4 Cal Water will provide DRA a report of its planned conservation programs, program design and program evaluation for the gap period.

3.5 Regarding the possible use of the memorandum account in year 2009/2010 and July – Dec 2010, Cal Water will focus on water conservation programs for low income customers in addition to other cost-effective programs. Cal Water will discuss this approach with DRA prior to implementation.

3.6 Cal Water and DRA agree that the Conservation Memorandum Account will be reviewed in 2011 through a Tier III Advice Letter filing. Should there be a zero balance in the memorandum account, and a balance in the one-way balancing account, the amount in the one-way balancing account will be returned to ratepayers as required by D.06-08-011.

3.7 This settlement resolves all issues with Cal Water's conservation budget and memorandum account request in this OII. Conservation budgets for Cal Water's Bakersfield, Dixon, King City, Oroville, Selma, South San Francisco, West Lake, and Willows were handled in Cal Water's general rate case application A.06-07-017. Conservation budgets for Cal Water's Chico, Visalia, Livermore, Stockton, Salinas, Mid-Peninsula, Los Altos, and East Los Angeles will be handled in Cal Water's general rate case application A.07-07-001 currently before the Commission.

Respectfully submitted,

By: /s/ Dana Appling

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December 21, 2007

Respectfully submitted,

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December 20, 2007